MANAGEMENT'S DISCUSSION & ANALYSIS

TABLE OF CONTENTS (MD&A)

The purpose of the Management's Discussion and Analysis ("MD&A"), dated March 3, 2011, is to provide readers with additional information regarding Newfoundland Capital Corporation Limited's financial condition and results of operations and should be read in conjunction with the annual audited consolidated financial statements, prepared as of March 3, 2011, and related notes contained in this 2010 Annual Report.

These documents along with the Company's Annual Information Form, its Management Proxy Circular dated March 21, 2011 and other public information are filed electronically with various securities commissions in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed at www.sedar.com. The Company's news releases are also available on the Company's website at www.ncc.ca.

All amounts herein are expressed in Canadian dollars. Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in Fiscal 2010.

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

Management's Discussion and Analysis of financial condition and results of operations contains forward-looking statements. These forward-looking statements are based on current expectations. The use of terminology such as "expect", "intend", "anticipate", "believe", "may", "will", and other similar terminology relate to, but are not limited to, our objectives, goals, plans, strategies, intentions, outlook and estimates. By their very nature, these statements involve inherent risks and uncertainties, many of which are beyond the Company's control, which could cause actual results to differ materially from those expressed in such forward-looking statements. The Company has outlined in this MD&A a section entitled "Risks and Opportunities" that discusses possible events or conditions that are beyond management's control and that could affect future results; these include topics surrounding the economy, the regulatory environment, the dependency on advertising revenues, competition, technological developments and potential contingencies. Readers are cautioned not to place undue reliance on these statements. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

MANAGEMENT'S DISCUSSION & ANALYSIS

Profile

Newfoundland Capital Corporation Limited ("the Company") is Canada's largest pure-play radio company, employing approximately 800 of the best radio professionals across the country. The Company's portfolio of radio assets includes 63 FM and 18 AM licences which can be heard throughout Canada. Most of our stations are globally accessible via the internet and various mobile device applications, allowing listeners the flexibility to tune in to our stations at any time from anywhere. The shares of the Company trade on the Toronto Stock Exchange under the symbols NCC.A and NCC.B.

2010 Significant Highlights

- Consolidated revenue increased 12% driven by both local and national advertising revenue within the broadcasting segment.
- 21% increase in consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA")[1]. This is significant growth year-over-year and is net of $3.0 million in copyright fees which arose due to a Copyright Board ruling in July 2010. Excluding this ruling and the one time recovery of CRTC Part II fees in 2009, EBITDA would have been 51% higher than the prior year.
- Net income is lower than the prior year due to certain non-operating items. In 2010 the Company incurred a $1.6 million broadcast licence impairment charge negatively impacting net income while 2009 results included a gain on disposal of a broadcasting licence of $5.6 million.
- The Company declared dividends of $0.12 per share on each of its Class A Subordinate Voting Shares ("Class A shares") and Class B Common Shares ("Class B shares"). This represents a 20% increase over the amount declared in 2009.
- Pursuant to a Normal Course Issuer Bid, the Company repurchased for cancellation 1,459,978 of its outstanding Class A shares for $9.2 million.
- The December 2010 listener ratings results were among the best the Company has ever achieved. The Company ranked #1 in its targeted demographic in the majority of its surveyed markets.

[1] Refer to page 37 for the reconciliation of EBITDA to net income

Our Industry

The broadcasting industry is regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC"). The CRTC is the agency responsible for concluding on whether a new licence should be granted, to whom and whether the licence carries any conditions that must be adhered to by the broadcaster. Licences generally have seven year terms at the end of which, applications are made to renew the licences for an additional seven year term.

The regulatory environment is such that, depending on the size of a particular market, a broadcaster is subject to a maximum number of AM or FM licences. This serves to limit the number of competitors that can participate in a market, but it also limits the broadcaster's ability to increase its total number of licences in any given locale.

Audience and Share Ratings

Advertising revenue is largely dependent on a station's market share and therefore, it is a critical success factor to capture as many listeners as possible to maximize revenue. The agency primarily responsible for measuring stations' market share is the Bureau of Broadcast Measurement ("BBM").

In Canada's largest markets, the method of audience measurement has changed to the Portable People Meter method ("the meter method"). The meter method is considered a more accurate technique to capture listener share since individuals carry pager-like devices which automatically detect listening habits at all times during the day. The traditional diary method relies on paper diaries that individuals fill out manually based on their recollected radio listening habits. For the Company, two of its largest surveyed markets are measured using the meter method – Edmonton and Calgary, Alberta. This has been positive for the Company because this method produced a more accurate measure of the Company's penetration in these markets.

The major markets that are not yet subject to the meter method (Ottawa and Winnipeg) are surveyed by the diary method two times per year. Smaller markets are surveyed with diaries semi-annually or annually and some are not rated at all. National advertisers use survey results to book airtime on the top market performers.

The Company's Strategy in 2010, 2011 and Beyond

Growth and shareholder value are at the cornerstone of every strategic, operating and financial decision made by management.

2010

Management's focus on its goals has resulted in a positive impact on the results for 2010. Acquisition opportunities that fit the Company's growth strategy continued to be explored with no investments in 2010. Management's focus on organic growth paid off with double-digit revenue growth.

Growth of Existing Operations

Revenue and EBITDA increased in 2010 by 12% and 21% respectively. The Company continued to outpace the industry within the broadcasting segment with 12% growth in broadcasting revenue compared to the industry having 6% growth. The Company's talented employees led the way for success in 2010 and here are just some of their achievements:

- Advertising revenue increased 12% while industry revenue was 6% in 2010. This performance was a result of expanding the sales force, intensive training and an increase in sales activity.
- Building upon its tight management of costs in 2009, the Company ensured its fixed costs grew only at inflationary rates thus helping to ensure the majority of revenue growth led to improved EBITDA.
- The Company achieved strong ratings results in 2010; this is attributed to the hard working employees in programming, on-air talent, and in the creative and news departments, all of which position the Company for a rewarding year in 2011.

The Company has always believed that one of its key success factors is the connection it has forged over the years with the local communities it serves. A significant amount of the Company's revenue growth came from local advertising in 2010. These local ties are critical to the Company's success. Throughout the year, the Company continued to be actively involved in and supportive of local, charitable, community-based activities and fundraising initiatives.

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2011 and Beyond

In 2011 and beyond, the Company intends to continue to grow existing operations, to increase its number of licences and to explore all new acquisition opportunities that present themselves. It is management's goal to be the largest radio licence holder in Canada. Some of the more specific goals for the Company in 2011 and beyond are:

- Grow existing operations by maximizing revenue, continue to control costs to increase EBITDA margins and improve programming to bolster market share.
- Review all opportunities for the Company to reach an expanded audience using its current stations.
- Maximize the return from the Company's recently launched AM to FM conversions. Previous conversions have resulted in considerable revenue gains.
- Apply to the CRTC for new licences in markets that fit the Company's growth strategy and continue to apply for AM to FM conversions. These initiatives not only allow the Company to improve financial results; but also, increase the number of licences in its portfolio.
- Make business acquisitions that are cash-accretive in the near-term and that fit the Company's overall operating strategy.
- Remain committed to the communities served by the Company's radio stations by continuously being involved with charitable activities and other community-sponsored events.
- Finally, and most importantly, retain and attract strong broadcasting professionals.

Corporate Developments

These are the significant corporate developments and should be considered when reviewing the "Financial Performance Review" section. The results of the acquired or launched stations have been included in the consolidated financial statements since the respective acquisition and launch dates.

2010 Developments:

- Early in 2010 the Company launched the four repeater signals in Prince Edward Island.
- In February CFCB in Corner Brook, Newfoundland and Labrador celebrated its 50th anniversary.
- The Company received CRTC approval to convert the AM stations in Westlock, Grande Cache and Brooks, Alberta to FM. The Brooks FM was launched in early 2011.
- CFRQ-FM, otherwise known as Q104, serving Halifax, Nova Scotia was named medium-market station of the year during Canada Music Week.
- The Company re-launched CHNO-FM as Rewind 103.9 playing Sudbury, Ontario's Greatest Hits and debuted #1 in the Fall ratings period.
- CHNK-FM in Winnipeg, Manitoba was re-branded as K-Rock 100.7 World Class Rock. The station plays primarily classic rock music as well as a diverse mix of blues and roots music.
- The Company received CRTC approval for a repeater in Springdale, Newfoundland and Labrador.
- The Company repurchased 1,459,978 Class A shares for $9.2 million pursuant to a Normal Course Issuer Bid.

2009 Developments:

- In January 2009 the Company launched the new FM station in Pincher Creek, Alberta playing country music.
- The CRTC approved two AM to FM conversions for stations in St. Paul and High Prairie, Alberta. The High Prairie FM launched in early 2011. The St. Paul FM is expected to be launched during 2011.
- In June 2009, the CRTC approved the Company's applications to convert AM stations to FM in Wabush and Goose Bay, Newfoundland and Labrador. These new FM stations were launched in 2010.
- CFUL in Calgary, Alberta was reformatted as a Contemporary Hits Radio format and branded as AMP Radio. This format is similar to the very popular Ottawa station, Hot 89.9, which was named the 2008 Contemporary Hits Radio station of the year.
- In July an exchange of assets with Rogers Broadcasting Limited was completed. The Company's Halifax AM licence was exchanged for Rogers' AM licence in Sudbury, Ontario plus $5.0 million. The AM station was converted to FM and launched as Hot 93.5. Its format is Top 40 and has been met with a very positive response from both listeners and clients.
- The Company launched the converted FM radio station in Athabasca, Alberta. 94.1 FM The River plays Classic Hits.
- The Company's stock was split on a three-for-one basis in November 2009.
- The Company completed the previously announced sale of the broadcasting assets related to the two FM stations in Thunder Bay, Ontario for $4.5 million plus working capital.

Financial Performance Review

Selected Financial Highlights

Growth in revenue between 2008 and 2010 was due largely to a combination of organic growth and incremental increases from new station launches. These are some of the other significant factors that affected annual results between 2008 and 2010:

- 2008—The Company recorded a total of $9.4 million in losses related to the Company's marketable securities of which $7.9 million was unrealized. While significant losses were recorded in 2008, the Company experienced significant gains in 2006, 2007 and in 2009. A goodwill impairment charge of $1.3 million also negatively impacted net income in 2008.
- 2009—The Company recorded a $5.6 million gain on disposal of a broadcasting licence.
- 2010—The Company recorded a broadcast licence impairment charge of $1.6 million.

Due to the disposal of broadcasting assets in Thunder Bay, Ontario on December 30, 2009, the financial results of operations from this component and its gain on disposal were treated as discontinued operations for 2008 and 2009.

Selected Financial Highlights (thousands of Canadian dollars, except share data)		2010	2009	2008
Revenue	$	**117,399**	105,298	103,382
Net income (loss) from continuing operations		**10,701**	14,934	(4,753)
Net income (loss)		**10,701**	15,366	(4,645)
Weighted average number of outstanding shares*				
– basic (thousands)		**32,729**	32,972	33,048
– diluted (thousands)		**33,766**	34,074	34,009
Earnings per share*				
Net income (loss) from continuing operations				
– basic		**0.33**	0.45	(0.14)
– diluted		**0.32**	0.44	(0.14)
Net income (loss)				
– basic		**0.33**	0.47	(0.14)
– diluted		**0.32**	0.45	(0.14)
Total assets		**232,353**	232,853	235,776
Long-term debt, including current portion		**53,158**	57,100	73,840
Dividends declared*				
Class A shares		**0.12**	0.10	0.10
Class B shares		**0.12**	0.10	0.10

*Effective on November 25, 2009, the Class A shares and Class B shares were split on a three-for-one basis. Accordingly, the comparative number of shares and per share amounts have been retroactively adjusted to reflect the three-for-one split.

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Consolidated Financial Results of Operations
The Company's consolidated financial results of operations showed significant growth in 2010 and exceeded industry-wide performance.

	3 months			12 months		
(thousands of Canadian dollars, except per share data and percentages)	2010	2009	% change	2010	2009	% change
Revenue	**$ 32,200**	30,458	6	**$ 117,399**	105,298	12%
Operating expenses	**23,574**	20,324	16	**91,829**	84,247	9%
EBITDA	**8,626**	10,134	(15%)	**25,570**	21,051	21%
Depreciation and amortization	**1,228**	1,019	21%	**3,941**	3,795	4%
Interest expense	**1,002**	1,520	(34%)	**3,639**	4,374	(17%)
Accretion of other liabilities	**132**	202	(35%)	**683**	867	(21%)
Broadcast licence impairment charge	**—**	—	—	**1,609**	—	n/a
	6,264	7,393	(15%)	**15,698**	12,015	31%
Other income (expense)	**546**	(273)	n/a	**437**	2,809	n/a
Gain on disposal of broadcasting licence	**—**	—	—	**—**	5,616	n/a
Earnings from continuing operations	**6,810**	7,120	(4%)	**16,135**	20,440	(21%)
Provision for income taxes	**2,077**	1,996	4%	**5,434**	5,506	(1%)
Net income from continuing operations	**4,733**	5,124	(8%)	**10,701**	14,934	(28%)
Net income from discontinued operations	**—**	337	n/a	**—**	432	n/a
Net income	**$ 4,733**	5,461	(13%)	**$ 10,701**	15,366	(30%)
EPS - continuing operations						
- basic	**$ 0.15**	0.16	—	**0.33**	0.45	—
- diluted	**0.14**	0.15	—	**0.32**	0.44	—
EPS						
- basic	**0.15**	0.17	—	**0.33**	0.47	—
- diluted	**0.14**	0.16	—	**0.32**	0.45	—

Analysis of Consolidated Results

A thorough analysis of the variations in revenue, other income, operating expenses and EBITDA are included in the section entitled "Financial Review by Segment".

Revenue
Consolidated revenue of $32.2 million in the fourth quarter improved by 6% or $1.7 million and for the year ended December 31, 2010, consolidated revenue of $117.4 million was 12% or $12.1 million higher than 2009. This improvement came exclusively from the broadcasting segment.

Operating Expenses
Consolidated operating expenses for the fourth quarter were $23.6 million, 16% or $3.3 million higher than 2009 while for the year ended December 31, 2010, they were $91.8 million, 9% or $7.6 million higher.

CRTC Part II Licence fees totaling $2.0 million were reversed in the fourth quarter of 2009 as a result of a court decision while in 2010 the Copyright Board issued a ruling on certain tariffs which resulted in a $3.0 million increase in copyright fees, of which $1.8 million related to previous years. These two matters are more fully explained under the "Financial Review by Segment" section.

Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")
Fourth quarter consolidated EBITDA was $8.6 million and $25.6 million year-to-date. Consolidated EBITDA in the fourth quarter was lower than 2009 largely due to the aforementioned CRTC Part II fees' reversal in 2009 and additional copyright fees in 2010. Excluding the impact of these two fees, fourth quarter EBITDA would have been 9% higher than 2009 and year end EBITDA of $27.3 million would have been 51% higher than 2009.

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Depreciation and Amortization

Depreciation and amortization expense was $1.2 million in the quarter, slightly higher than 2009, while year-to-date depreciation and amortization of $3.9 million was 4% higher than last year. These variations were not significant overall but varied depending on the asset base and timing of capital expenditures.

Interest Expense

Interest expense in the quarter was $1.0 million and year-to-date interest was $3.6 million; both lower than the same periods last year. In the fourth quarter of 2009, the Company de-designated a portion of one of its interest rate swaps which resulted in the recognition of interest expense of almost $0.6 million. Excluding the de-designation adjustment, 2010 interest expense would have been on par with 2009.

Accretion of Other Liabilities

Accretion of other liabilities arises from discounting Canadian Content Development ("CCD") commitments to reflect the fair value of the obligations. The expense in the quarter of $0.1 million and $0.7 million year-to-date was slightly lower than the respective periods last year as a result of the expense being higher in the initial years of payment.

Broadcast Licence Impairment Charge

During the second quarter of 2010, management conducted a broadcast licence impairment analysis for one of its reporting units due to a triggering event in which the Company's request for the removal of certain format restrictions on one of its Winnipeg broadcast licences was not approved by the CRTC. As a result of the analysis, management recorded a broadcast licence impairment charge of $1.6 million, which is more fully described in note 4 of the Company's annual audited consolidated financial statements.

Other Income (Expense)

Other income (expense) relates primarily to investment income and consists of realized and unrealized gains and losses related to the Company's investment portfolio of marketable securities, interest, dividends and distributions from investments. Other income was $0.5 million in the quarter, $0.8 million better than the same period last year while year-to-date other income of $0.4 million was $2.4 million lower than the prior year. In 2010, stock prices in the general Canadian trading market experienced improvements. This resulted in the recognition of unrealized gains, although the gains were not as high as 2009. Realized losses due to the divestiture of marketable securities in 2010 were $nil in the quarter and $0.3 million for the year.

Gain on Disposal of Broadcasting Licence

In July 2009, upon the completion of the radio asset exchange with Rogers, the Company disposed of its AM licence in Halifax, Nova Scotia and recorded a gain of $5.6 million.

Provision for Income Taxes

The provision for income taxes was lower than 2009 due to lower pre-tax earnings. The effective income tax rate was 34% which is on par with the statutory rate of 34%.

Discontinued Operations

The Company disposed of its net assets associated with the two FM radio stations located in Thunder Bay, Ontario and therefore, the financial results of operations from this component and the gain on its disposal were treated as discontinued operations in the consolidated statements of income.

Net Income

Fourth quarter net income of $4.7 million and $10.7 million for the year was lower than the same periods last year. The primary reasons for lower amounts in 2010 were the fluctuation of fees, the broadcast licence impairment charge in 2010 and the gain on disposal of a broadcasting licence in 2009.

Other Comprehensive Income ("OCI")

OCI consists of the net change in the fair value of the Company's cash flow hedges. These include interest rate swaps and an equity total return swap. The after-tax unrealized income recorded in OCI for the interest rate swaps was $0.5 million in the fourth quarter and $0.3 million year-to-date (2009 – $0.8 million in the quarter and $2.8 million year-to-date). The after-tax unrealized loss related to the equity total return swap was $0.1 million for the quarter (2009 – $0.3 million). Year-to-date, the unrealized after-tax loss was less than $0.1 million (2009 – $0.1 million after-tax gain).

Financial Review by Segment

Consolidated financial figures include the results of operation of the Company's two separately reported segments—Broadcasting and Corporate and Other. The Company provides information about segment revenue and segment EBITDA and operating income because these financial measures are used by its key decision makers in making operating decisions and evaluating performance. For additional information about the Company's segmented information, see note 17 of the Company's annual audited consolidated financial statements.

Broadcasting Segment

The broadcasting segment derives its revenue from the sale of broadcast advertising from its licences across the country. Advertising revenue can vary based on market and economic conditions, the audience share of a radio station, the quality of programming and the effectiveness of a company's team of sales professionals.

Reporting units within the broadcasting segment are managed and evaluated based on their revenue and EBITDA. Here are the key operating results of the broadcasting segment.

Revenue

Fourth quarter revenue was $31.4 million, 6% or $1.7 million higher than the same quarter last year. For the year ended December 31, 2010, revenue of $113.8 million improved by 12% or $12.0 million compared to 2009. The entire growth in the quarter and year-to-date was driven by organic (same-station) revenue.

The Western Canada radio properties had strong revenue growth for the Company achieving an increase of 8% in the quarter and 13% year-to-date. Atlantic Canada radio stations and those in the Central region also enjoyed growth that exceeded the industry average with Central Canada's revenue growing year-over-year by 25% and Atlantic Canada's growth was 7%. The overall industry growth was 6%.

During 2010 national advertising for the Company was 12% higher than 2009 as the economy strengthened and continued to be strong throughout the year. For the Company, local advertising increased by 12% or $8.4 million, another sign that the economic recovery was widespread throughout the country.

Overall, the industry's average growth rate in 2010 was 6%; the Company posted positive growth of 12% year-over-year. Management anticipates that it will be able to continue generating positive revenue growth in 2011.

Broadcasting Segment

(thousands of Canadian dollars, except percentages)	3 months			12 months		
	2010	2009	% change	**2010**	2009	% change
Revenue	$ **31,370**	29,670	6%	$ **113,803**	101,763	12%
Operating expenses	**20,292**	17,756	14%	**80,790**	73,951	9%
EBITDA	$ **11,078**	11,914	(7%)	$ **33,013**	27,812	19%
EBITDA margin	**35%**	40%	(5%)	**29%**	27%	2%

Operating Expenses

Broadcasting operating expenses for the quarter were $20.3 million, 14% or $2.5 million higher than 2009 while year-to-date operating expenses of $80.8 million were also higher than last year by 9% or $6.8 million.

Over the past number of years the Canadian Association of Broadcasters (the "CAB"), on behalf of all radio broadcasters, has been disputing the amount of Part II fees charged by the CRTC. During these years there were court filings, appeals and in 2009, a final settlement was reached. The Company adjusted its operating expenses related to these fees based on court decisions at each stage of the dispute. In 2007 there was a reduction in fees while in 2008 there was an increase in fees. In the final ruling in the fourth quarter of 2009, operating expenses were reduced by $2.0 million. The net effect of this ruling was that the Company had no Part II fees expense for September 1, 2006 to August 31, 2009. Beginning September 2009, the approximate annual fee cost is $0.6 million.

The Copyright Board issued a ruling in July 2010 on certain tariffs which resulted in a $3.0 million increase in copyright fees year-to-date, of which $1.8 million related to previous years. As a result of this ruling, copyright fees as a whole have increased from 7.3% to 8.9% of revenue, subject to certain exemptions for low use and low revenue stations.

Excluding the impact of CRTC Part II fees and increased copyright fees, operating expenses would have been less than 2% higher than the fourth quarter last year and year-to-date expenses would have been 3% higher than 2009. The small increases in the 2010 operating expenses were primarily because of higher variable costs due to higher revenue.

EBITDA

Fourth quarter broadcasting EBITDA of $11.1 million was 7% or $0.8 million lower than 2009. Year-to-date EBITDA of $33.0 million was 19% or $5.2 million better than last year. Eliminating the impact of CRTC Part II fees and copyright fees explained above, EBITDA in the quarter would have been $11.1 million and $34.8 million year-to-date. This represents a $1.4 million or 14% increase over the fourth quarter last year and a $9.9 million or 40% increase on a year-to-date basis. The improved EBITDA is attributable to revenue growth in the quarter and in the year.

Corporate and Other Segment

The Corporate and Other segment derives its revenue from hotel operations. Corporate and Other also includes other income and expenses attributed to head office functions and investment income from the Company's portfolio of marketable securities; the results of which are impacted by the economic and related market conditions.

Revenue

Corporate and Other revenue increased by less than $0.1 million or 5% in the fourth quarter and by less than $0.1 million or 2% year-to-date; this was due to a slight increase in hotel revenue.

Operating Expenses

Operating expenses of $3.3 million were higher than the fourth quarter last year. Year-to-date operating expenses of $11.0 million were 7% or $0.7 million higher than 2009.

EBITDA

Fourth quarter and year-to-date EBITDA were lower than the same periods last year primarily due to the increase in operating expenses.

Corporate and Other Segment

(thousands of Canadian dollars, except percentages)	3 months			12 months		
	2010	2009	% change	**2010**	2009	% change
Revenue	$ **830**	788	5%	$ **3,596**	3,535	2%
Operating expenses	**3,282**	2,568	28%	**11,039**	10,296	7%
EBITDA	$ **(2,452)**	(1,780)	(38%)	$ **(7,443)**	(6,761)	(10%)

Selected Quarterly Financial Information

(unaudited except totals)

The Company's revenue and operating results vary, depending on the quarter. The first quarter is generally a period of lower retail spending and as a result, advertising revenue is lower. The fourth quarter tends to be a period of higher retail spending. In 2010 the Company recognized the increased copyright fees and the broadcast licence impairment charge in the second quarter. In 2009, a gain on the disposal of a broadcasting licence positively impacted net income by $5.6 million in the third quarter.

(thousands of Canadian dollars, except share data)	Quarter				
2010	1st	2nd	3rd	4th	Year
Revenue	**$ 25,706**	**30,785**	**28,708**	**32,200**	**117,399**
Net income	**1,237**	**2,127**	**2,604**	**4,733**	**10,701**
Earnings per share					
– basic	**0.04**	**0.06**	**0.08**	**0.15**	**0.33**
– diluted	**0.04**	**0.06**	**0.08**	**0.14**	**0.32**
2009					
Revenue	$ 22,660	26,772	25,408	30,458	105,298
Net income	552	3,144	6,209	5,461	15,366
Earnings per share					
– basic	0.02	0.10	0.19	0.17	0.47
– diluted	0.02	0.09	0.18	0.16	0.45

Cash Flows

The table to the right depicts the major sources of cash inflows and outflows in 2010 and 2009.

Cash Flows – 2010
Cash flows from operating activities of $23.0 million were used to fund the repurchase of capital stock of $9.2 million, dividend payments of $5.3 million, to pay CCD commitments of $2.8 million and to purchase property and equipment totaling $2.9 million.

Cash Flows – 2009
Cash flows from operating activities of $18.3 million along with the proceeds of $9.8 million on the disposal of broadcasting assets were used to repay debt by $18.6 million, to pay CCD commitments of $5.0 million and to purchase property and equipment totaling $4.0 million.

Cash Inflows (thousands of Canadian dollars)	2010	2009
Funds generated from continuing operations	**$ 17,425**	18,605
Change in working capital	**5,581**	(646)
Discontinued operations	**—**	383
Cash generated from operating activities	**23,006**	18,342
Proceeds from disposal of broadcasting assets	**—**	9,753
Total inflows	**$ 23,006**	28,095

Cash Outflows (thousands of Canadian dollars)	2010	2009
Bank debt repayments	**$ (2,319)**	(18,649)
Property and equipment additions	**(2,949)**	(3,961)
Dividends paid	**(5,275)**	—
Canadian Content Development commitment payments	**(2,759)**	(4,973)
Repurchase of capital stock	**(9,227)**	—
Other	**(477)**	(512)
Total outflows	**$ (23,006)**	(28,095)

Capital Expenditures and Capital Budget

The more significant investments in property and equipment in 2010 related to AM to FM conversions launched during the year as well as general improvements and upgrades throughout the Company.

The capital expenditures for 2011 are expected to be approximately $7.0 million. The major planned expenditures include launching additional AM to FM conversions as well as general improvements and upgrades. The Company continuously upgrades its broadcast equipment to improve operating efficiencies.

Financial Condition

Total Assets

Assets of $232.4 million are $0.5 million lower than 2009. This is primarily due to the broadcast licence impairment charge described above.

Liabilities and Shareholders' Equity

As at December 31, 2010 the Company had $1.4 million of current bank indebtedness outstanding and $53.2 million of long-term debt. The Company has also issued standby letters of credit totaling $0.8 million in support of certain long-term liabilities. The capital structure consisted of 44% equity ($102.0 million) and 56% debt ($130.4 million) at year end.

Liquidity

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and borrowings under the existing credit facility. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. Management deems its liquidity risk to be low and this is explained in the paragraphs that follow.

Credit Facility and Covenants

The Company's syndicated credit facility of $76.5 million is a revolving credit facility. The Company chooses this type of credit facility because it provides flexibility with no scheduled repayment terms.

The Company is subject to covenants on its credit facility. The Company's bank covenants include certain maximum or minimum ratios such as total debt to EBITDA ratio, interest coverage and fixed charge coverage ratio. Other covenants include seeking prior approval for acquisitions or disposals in excess of a quantitative threshold. The Company was in compliance with the covenants throughout the year and at year end.

Cash flow from operations and funds available from the Company's $76.5 million credit facility have been the primary funding sources of working capital, capital expenditures, Canadian Content Development payments, dividend payments, debt repayments, and other contractually required payments through the past several years. As at December 31, 2010, the Company's cash generated from operating activities was $23.0 million and $23.0 million was available to be drawn upon from its credit facility.

Positive Cash Balances

The Company does not maintain any significant positive cash balances; instead it uses the vast majority of its positive cash balances to reduce debt and minimize interest expense. As a result, the Company nets its deposits in banks with bank indebtedness. The fact that the Company does not have positive cash positions on its balance sheet does not pose an increase to its liquidity risk because the Company generates cash from operations and, as part of its $76.5 million credit facility, it has a $5.0 million current operating credit line to fund any current obligations and it can also access any unused capacity in its credit facility to fund obligations.

Working Capital Requirements

As at December 31, 2010, the Company's working capital deficiency was $0.8 million. The cash from current receivables will be sufficient to cover the Company's current obligations to its suppliers and employees and in combination with ongoing cash from operations and the availability of cash from its debt facility, the Company will be able to meet all other current cash requirements as they arise. If cash inflows from customers are not sufficient to cover current obligations, because of timing issues, the Company has access to a $5.0 million operating credit line.

Future Cash Requirements

Other than for operations, the Company's cash requirements are mostly for interest payments, repayment of debt, capital expenditures, Canadian Content Development payments, dividends and other contractual obligations. Management anticipates that its cash flows from operations will provide sufficient funds to meet its cash requirements. The Company's future cash requirements are summarized in a table under the heading "Contractual obligations".

Based on the above discussion and internal analysis, management deems its liquidity risk to be low.

Contractual Obligations

(thousands of Canadian dollars)		2011	2012	2013	2014	2015	thereafter	Total
Long-term debt (NOTE 8)	$	—	53,500	—	—	—	—	**53,500**
Canadian Content Development commitments (NOTE 14)		2,748	2,808	1,663	424	195	138	**7,976**
Operating leases		3,788	3,103	2,625	2,029	1,834	6,441	**19,820**
Pension funding obligation		513	514	515	516	517	5,662	**8,237**
Total contractual obligations	$	7,049	59,925	4,803	2,969	2,546	12,241	**89,533**

Contractual Obligations

The above table summarizes the Company's significant contractual obligations and commitments as at December 31, 2010 and the future periods in which the obligations become due and payable. Additional details regarding these obligations are provided in the notes to the audited consolidated financial statements, as referenced in the table.

The Company recognizes long-term debt and CCD commitments (when stations are launched) as liabilities on the balance sheet. Operating lease commitments and CCD commitments related to recently awarded licences are disclosed in notes 19 and 20 of the Company's audited consolidated financial statements.

The Company also has obligations with respect to its employee benefit plans, as discussed in note 10 of the audited consolidated financial statements. The Supplementary Retirement Pension Arrangements ("SRPAs") provide benefits above and beyond that which can be provided under the Income Tax Act, and therefore are not pre-funded. As a result, the Company's annual funding obligation approximates $0.5 million. There are no similar obligations under the Company's Basic Plan as it is fully funded.

Share Capital

Outstanding Share Data

The weighted average number of shares outstanding at December 31, 2010 was 32,729,000 (2009 – 32,972,000). As of this date, there are 26,373,372 Class A shares and 3,771,702 Class B shares outstanding.

Stock-Split

Effective on November 25, 2009, the Class A shares and Class B shares were split on a three-for-one basis. Accordingly, the comparative number of shares and per share amounts have been retroactively adjusted to reflect the three-for-one split.

Dividends Declared

The Board of Directors declared dividends of $0.12 per share on each of its Class A shares and Class B shares. This represents a 20% increase over the 2009 amount of $0.10 per share.

Share Repurchases

In 2010, pursuant to the Normal Course Issuer Bid which expired February 8, 2011, the Company repurchased for cancellation 1,459,978 of its outstanding Class A shares for $9,227,000. As a result of these share repurchases, capital stock was reduced by $2,100,000 and retained earnings by $7,127,000. The Company did not repurchase for cancellation any of its outstanding shares during 2009. Subsequent to year end, the Company received approval under a Normal Course Issuer Bid to repurchase up to 1,388,072 Class A shares and 75,434 Class B shares. This bid expires February 8, 2012. On February 15, 2011 the Company repurchased 1,388,072 Class A shares pursuant to this Normal Course Issuer Bid for $8,745,000.

Executive Stock-Based Compensation

Executive Stock Option Plan

As of this date, the number of Class A shares reserved for issuance pursuant to the executive stock option plan is 3,405,033. The number of Class A shares underlying outstanding options under the executive stock option plan is 2,665,000, of which 2,438,750 are vested, at prices ranging from $2.43 to $7.00. 740,033 options remain available to grant.

During the year, the Company granted 60,000 options (2009 – 220,000) at a weighted average exercise price of $6.77 (2009 – $6.52). The options vest at a rate of twenty-five percent on the date of grant and twenty-five percent on each of the three succeeding anniversary dates and they expire March 4, 2015. No options were exercised in 2010 or 2009. Contributed surplus was increased by $0.3 million (2009 – $0.2 million) related to compensation expense.

Stock Appreciation Rights Plan

A total of 1,745,000 stock appreciation rights ("rights") have been granted since 2006 at a weighted-average reference price of $5.75. The rights' expiry dates range from March 2011 to February 2015. As at December 31, 2010, 270,000 rights had expired and 454,250 rights had been exercised. The rights vest at a rate of 50% at the end of year three, 25% at the end of year four and 25% at the end of year five and are exercisable as they vest. At the date of exercise, cash payments are made to the holders based on the difference between the market value of the Company's Class A shares and the reference price. All rights granted under this plan expire on the 60th day following the 5th anniversary of the grant date. For the year ended December 31, 2010, the compensation expense related to the rights was less than $0.1 million (2009 – $1.5 million) bringing the total obligation to $1.0 million, of which $0.9 million was current (2009 – current obligation of $1.1 million).

Financial Instruments and Financial Risk Management

For more detailed disclosure about the Company's financial instruments and financial risk management, refer to note 14 of the audited consolidated financial statements.

Interest Rate Risk Management

To hedge its exposure to fluctuating interest rates on its long-term debt, the Company has entered into two interest rate swap agreements with Canadian chartered banks. The swap agreements expire in 2013 and involve the exchange of the three-month bankers' acceptance floating interest rate for a fixed interest rate. The difference between the fixed and floating rates is settled quarterly with the bank and recorded as an increase or decrease to interest expense. Interest rate fluctuations would have an impact on the Company's results. A 0.5% change in the floating interest rates would have impacted the Company's consolidated net income by less than $0.1 million for the year ended December 31, 2010. The same rate change would have impacted OCI due to changes in fair value of the interest rate swaps by approximately $0.4 million, after-tax.

The aggregate notional amount of the swap agreements was $55.0 million (2009 – $60.0 million). The aggregate fair value payable of the swap agreements was $3.0 million (2009 – $3.8 million).

As at December 31, 2009, the Company de-designated $10.0 million of the Company's interest rate swap agreements; therefore, hedge accounting no longer applies on the de-designated portion. Hedge accounting continues to apply for a notional amount of $50.0 million. Of the amount of pre-tax interest transferred to net income from OCI, $0.1 million related to the de-designated portion. After-tax, the unrealized non-cash gain related to the interest rate swaps recognized in OCI was $0.3 million (2009 – $2.8 million).

Share Price Volatility Management

In July 2006, the Company entered into an agreement to hedge its obligations under the stock appreciation rights plan using an equity total return swap agreement to reduce the volatility in cash flow and earnings due to possible future increases in the Company's share price. Gains or losses realized on the quarterly settlement dates are recognized in income in the same period as the stock appreciation rights' compensation expense. Unrealized gains and losses, to the extent that the hedge is effective, are deferred and included in OCI until such time as the hedged item affects net income. If at any time, the hedge is deemed to be ineffective or the hedge is terminated or de-designated, gains or losses, including those previously recognized in OCI, will be recorded in net income immediately.

The estimated fair value of the equity total return swap receivable at December 31, 2010 was $1.3 million (2009 – $1.5 million). Up to December 31, 2010, the Company has de-designated 724,250 of the notional Class A shares; therefore, hedge accounting no longer applies on the de-designated portion. Of the before-tax gains transferred from OCI to net income, $0.4 million related to the de-designated portion. After-tax, the unrealized non-cash loss recognized in OCI for the year was less than $0.1 million (2009 – $0.1 million gain).

Market Risk Management

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The fair value of the Company's marketable securities is affected by changes in the quoted share prices in active markets. Such prices can fluctuate and are affected by numerous factors beyond the Company's control. In order to minimize the risk associated with changes in the share price of any one particular investment, the Company diversifies its portfolio by investing in various stocks in varying industries. It also conducts regular financial reviews of publicly available information related to its investments to determine if any identified risks are within tolerable risk levels. As at December 31, 2010, a 10% change in the share prices of each marketable security would result in a $0.4 million after-tax change in net income.

Credit Risk Management
Credit exposure on financial instruments arises from the possibility that a counterparty to an instrument in which the Company is entitled to receive payment fails to perform.

The Company is subject to normal credit risk with respect to its receivables. A large customer base and geographic dispersion minimize the concentration of credit risk. Credit exposure is managed through credit approval and monitoring procedures. The Company does not require collateral or other security from clients for trade receivables; however the Company does perform credit checks on customers prior to extending credit. Based on the results of credit checks, the Company may require upfront deposits or full payments on account prior to providing service. The Company reviews its receivables for possible indicators of impairment on a regular basis and as such, it maintains a provision for potential credit losses which totaled $1.3 million as at December 31, 2010. The Company is of the opinion that the provision for potential losses adequately reflects the credit risk associated with its receivables. Approximately 85% of trade receivables are outstanding for less than 90 days. Amounts would be written off directly against accounts receivable and against the allowance only if and when it was clear the amount would not be collected due to customer insolvency. Historically, the significance and incidence of amounts written off directly against receivables have been low. In 2010, $0.8 million was written off which is less than 4% of the year end receivables' balance and less than 1% of revenue. The Company believes its provision for potential credit losses is adequate at this time given the current economic circumstances.

With regard to the Company's derivative instruments, the counterparty risk is managed by only dealing with Canadian chartered banks having high credit ratings.

Capital Management
The Company defines its capital as shareholders' equity. The Company's objective when managing capital is to pursue its strategy of growth through acquisitions and through organic operations so that it can continue to provide adequate returns for shareholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or repurchase shares. The Directors and Senior Management of the Company are of the opinion that from time to time the purchase of its shares at the prevailing market price would be a worthwhile investment and in the best interests of the Company and its shareholders. Material transactions and those considered to be outside the ordinary course of business, such as acquisitions and other major investments or disposals, are reviewed and approved by the Board of Directors.

New Accounting Policies

The Company prepares its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company's accounting policies remained unchanged in 2010. As described in note 2 of the audited consolidated financial statements, effective January 1, 2009, the Company adopted the recommendations of the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: Section 3064—**Goodwill and Intangible Assets,** EIC—173 **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities** and Section 3862—**Financial Instruments—Disclosures.**

Section 3064—Goodwill and Intangible Assets
This Section establishes the standard for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this Section resulted in a change in how the Company accounts for its pre-operating costs related to new station launches. Prior to adopting this policy, the Company capitalized pre-operating costs and amortized them over the initial term of the related broadcast licences. Capitalization of these costs is no longer permitted and therefore will be recorded in net income as incurred. For pre-operating balances that existed on January 1, 2009, they were accounted for retrospectively with restatement of comparative figures in accordance with Section 1506 Accounting Changes.

EIC—173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
During 2009, the CICA issued EIC—173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities which requires an entity to consider its own credit risk and that of its counterparty to a financial instrument when determining the fair value of financial assets and liabilities. This applies to the Company's derivative instruments. No opening adjustment was required at the time of adoption; however, the Company has since measured its own credit risk in relation to its interest rate swaps and additional information is contained in note 14(b) of the audited consolidated financial statements.

Section 3862 Financial Instruments—Disclosures
In 2009, the CICA amended certain paragraphs in CICA Section 3862 Financial Instruments—Disclosures which aligns the standard more closely with IFRS. Specifically, it provides enhanced disclosure requirements around fair value measurement of financial instruments, including the relative reliability of the inputs used in those measurements, and disclosure of liquidity risk. Section 3862 now requires that an entity classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The amended paragraphs were to be applied for fiscal years ending on or after September 30, 2009. The Company adopted these amendments for the year ended December 31, 2009 and the additional required disclosures have been made in note 14 of the audited consolidated financial statements.

Future Accounting Policy Changes

The following is a description of accounting policies that will be adopted by the Company in future.

International Financial Reporting Standards
International Financial Reporting Standards ("IFRS") will be required for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company will apply IFRS beginning January 1, 2011 and will present 2010 comparative figures using IFRS, starting in the first quarter of 2011.

The Company has committed adequate internal resources to oversee the IFRS project and external consultants have been engaged throughout the process. The Audit and Governance Committee is regularly updated on the status of the project. Management has satisfied itself that it has sufficient resources, systems and applications in place to meet its financial reporting requirements.

IFRS—1 **First-time Adoption of International Financial Reporting Standards** provides guidance for transition which generally requires an entity to apply all IFRS standards retrospectively, with prior period restatements, on adoption of the new standards. However, IFRS—1 also includes mandatory exceptions and certain exemptions which enable an entity to apply certain areas of the standards prospectively. Management has analysed the exceptions and exemptions available under IFRS—1 and plans to apply the exemptions listed in the following table. A brief description of the impact of applying these exemptions is discussed as well.

MANAGEMENT'S DISCUSSION & ANALYSIS

Exemption	Impact
Business Combinations	The Company will elect to not restate any prior business combinations on adoption, to the extent the assets and liabilities meet the recognition criteria under the relevant IFRS standards. Broadcast licences and goodwill resulting from a business combination are not amortized under IFRS. Upon adoption of IFRS, the Company's previously recognized accumulated amortization of broadcast licences and goodwill will be reversed resulting in an increase in broadcast licences and goodwill of $6.8 million. Deferred income tax liabilities will be increased by $1.7 million and retained earnings will be increased by $5.1 million.
Fair Value or Revaluation as Deemed Cost	Due to the extensive cost involved in revaluing its property and equipment and the fact that most arose through business combinations, the Company has chosen not to revalue property and equipment on the transition date to its fair value.
Employee Benefits	The Company has elected to charge to equity any unamortized actuarial gains/losses arising from the defined benefit pension plans. The financial impact of this election, along with other pension restatement entries, approximates a $2.1 million increase in pension liability. Deferred income tax assets will increase by $0.5 million and retained earnings will decrease by $1.6 million.
Share-based Payment Transactions	The Company will elect not to retrospectively apply the IFRS—2 **Share-Based Payments** standards for any executive stock options granted prior to November 2002 and for any options that have fully vested or have been exercised prior to transition date.

Management has identified the differences between Canadian GAAP and IFRS and has devoted considerable time and resources on those areas that will most significantly impact the Company. The following table sets forth the accounting standards that will most likely impact the Company's consolidated financial statements; however, the actual impact is still subject to audit and final amounts may differ.

The following list shows the areas that management believes will present the most significant differences in accounting treatment based on the standards in effect as at December 31, 2010. It is not a complete and exhaustive list of all the Canadian GAAP and IFRS differences. The following are the key accounting areas management believes will impact the Company's consolidated financial statements with a brief description of the likely impact.

Key accounting areas	Impact
IAS—1 **Presentation of Financial Statements**	Additional financial statement note disclosures will be required.
IAS—12 **Income Taxes**	Future income tax assets/liabilities will be referred to as deferred income tax assets/liabilities and no current classification will be permitted. The criteria to recognize and measure deferred income taxes may result in differences compared to existing future income tax calculations. In addition, under IFRS the tax basis for certain broadcast licences and related CCD obligation is nil at inception and therefore upon transition the net deferred tax liability will be reduced by $7.4 million and retained earnings will increase by $7.4 million.
IAS—16 **Property and Equipment**	Entities are required to split traditional asset categories into components based on varying useful lives which may result in changes to the amount of annual depreciation expense. The increase in retained earnings upon adoption of this standard is expected to be $0.3 million.

MANAGEMENT'S DISCUSSION & ANALYSIS

Key accounting areas	Impact
IAS – **19 Employee Benefits**	An accounting policy choice is available for actuarial gains or losses after adoption; • An entity may elect to amortize the gains/losses using the corridor approach; • It may elect to recognize the gains/losses in net income annually; or • It may elect to recognize gains/losses in OCI annually. Under IFRS, there are differences in how defined benefit plan assets are valued and how an entity measures its plan asset valuation allowance, if any. This particular standard is under review by standard setters and any modification to it may dictate the accounting treatment the Company will adopt as it relates to actuarial gains and losses.
IAS – **36 Impairment of Assets**	Impairment calculations under IFRS are done at the Cash-Generating Unit ("CGU") which is defined as a unit that has independent cash inflows (as opposed to independent net cash flows under Canadian GAAP). Calculations are done using a discounted cash flow method under a one-step approach (as opposed to a two-step approach under Canadian GAAP). Goodwill is allocated and tested in conjunction with its related CGU or group of CGU's that benefit from collective synergies. Any impairment of intangible assets that occurs after the adoption of IFRS, other than goodwill, may be reversed. Due to the higher level of detail required for CGU analyses combined with a slightly different set of guidelines, this may give rise to an increased chance of broadcast licence and goodwill impairments. Management has completed its impairment tests as at January 1, 2010 and have estimated that the impairment on transition will be $7.7 million. Deferred tax liabilities will be reduced by $1.2 million and retained earnings will be reduced by $6.5 million.
IAS—**38 Intangible Assets**	After analysing IAS 38, management has concluded that there will be no significant differences in how the Company measures its internally-developed broadcast licences under IFRS.
IAS—**39 Financial Instruments: Recognition and Measurement**	This standard will effectively be replaced by new IFRS—9 Financial Instruments effective January 1, 2013 and may pose differences in how the Company classifies, recognizes and measures its financial instruments, including how it accounts for hedges. Earlier adoption of this standard may be permitted and the Company will monitor these developments closely.
IFRS—**2 Share-based Payments**	The Company anticipates a change in how it measures executive compensation for its stock appreciation rights plan because of differences related to pricing models, vesting periods and how to account for forfeiture. It is expected that there will be no impact to retained earnings upon the adoption of this standard.
IFRS—**3 Business Combinations**	Under this standard, acquisition-related costs such as legal, accounting, and other administrative costs, cannot be capitalized; they are to be expensed as period costs. Under Canadian GAAP, these costs were included in the cost of the business combination and capitalized. In the broadcasting industry significant commitments arise on business combinations that are payable to third parties, such as CCD commitments. Currently these commitments, which are equal to 6% of the purchase price, are capitalized under Canadian GAAP, however, under IFRS, these amounts will be expensed. All business acquisitions after January 1, 2011 will be impacted.

At this time, management is on track with the conversion project. The impact of the transition has been identified for most of the categories of the IFRS conversion and the Company is in the final stages of verifying the complete impact of the transition to IFRS and will be in a position to meet the filing timelines for the first quarter of 2011.

Critical Accounting Estimates

The financial statements are prepared in conformity with Canadian GAAP and this requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could be different from these estimates.

The following estimates are considered to be those that have the most impact on the Company's financial position, its results of operations and statement of cash flows.

Accounts Receivable

The Company makes a provision for doubtful accounts based on a market-by-market and client-by-client basis to provide for possible uncollectible accounts. A general allowance is also estimated for potential losses that takes into consideration external factors such as the economic climate. This requires judgment on the part of local station management and prior collection history.

Property and Equipment

The Company has estimated the useful lives of property and equipment based on past experience and is depreciating these assets over their useful lives. Management assesses these estimates on a periodic basis and makes adjustments when appropriate.

Impairment of Long-Lived Assets

Long-lived assets primarily include property and equipment and other intangible assets. An impairment loss is recognized when the carrying value of an asset exceeds its fair value which is the sum of the undiscounted cash flows expected from its use and eventual disposition. The Company tests the recoverability of its long-lived assets when events or circumstances indicate that the carrying values may not be recoverable. While the Company believes that no provision for impairment is required, management must make certain estimates regarding the Company's profit projections that include assumptions about growth rates and other future events. Changes in certain assumptions could result in charging future results with an impairment loss.

Broadcast Licences and Goodwill

The Company performs asset impairment assessments for broadcast licences and goodwill on an annual basis or on a more frequent basis when circumstances indicate impairment may have occurred. Under Canadian GAAP, the Company selected August 31 as the date it performs its annual impairment analysis. The assessments used to test for impairment are based on discounted cash flows which are derived from internal Company profit projections that include assumptions about growth rates and other future events. Industry information is used to estimate appropriate discount rates used in the calculation of discounted cash flows.

The fair value of the Company's broadcast licences and goodwill is subject to adverse changes if the Company experiences declines in cash flow, negative industry or economic trends or if future performance does not meet management's expectations. Management continuously monitors each reporting unit's results and external factors; should circumstances arise that indicate a need to test for impairment, management would do so immediately.

Canadian Content Development Commitments

The Company measures its CCD commitments using the amortized cost using the effective interest method. As a result, the Company must use industry information to estimate appropriate discount rates used in the calculation of the discounted estimated future cash payments.

Employee Future Benefit Plans

In valuing its defined benefit pension assets and obligations, the Company uses the projected benefit method pro-rated on services and best estimate assumptions. These assumptions include the discount rate on plan liabilities, the expected long-term rate of return on plan assets and the rate of compensation increase. The Company reviews these estimates annually with its actuaries and compares them to industry practices to ensure estimates are reasonable. Any changes to assumptions could affect the valuation of the Company's defined benefit pension assets and obligations.

Stock-Based Compensation

Note 13(b) of the audited consolidated financial statements summarizes the assumptions used in computing the fair value of stock-based compensation expense. These assumptions were determined using comparable available market and historical data. The Company believes the assumptions used are reasonable based on currently available information; however, to the extent that the assumptions prove to be different, future results could vary.

Income Taxes

Future income tax assets and liabilities are measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to be recovered, settled or reversed. The Company recognizes the benefits of capital and non-capital loss carryforwards as future tax assets when it is more likely than not that the benefits will be realized. To determine the provision for income taxes, certain assumptions are made, including filing positions on certain items and the ability to realize future tax assets. In the event the outcome differs from management's assumptions and estimates, the effective tax rate in future periods could be affected.

Off-Balance Sheet Arrangements

As at December 31, 2010, there were no off-balance sheet arrangements other than operating leases which are considered in the ordinary course of business.

Related Party Transactions

Inter-company balances and transactions of the Company's subsidiaries are eliminated upon consolidation. Related party transactions during the year were reviewed and there were no material transactions requiring separate disclosure in the notes to the audited consolidated financial statements.

Controls and Procedures

Disclosure Controls and Procedures

As part of the Form 52—109 certification, the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") must certify that they are responsible for designing Disclosure Controls and Procedures ("DC&P"), or caused them to be designed under their supervision. The CEO and CFO must also certify that they are responsible for evaluating the operating effectiveness of DC&P and that a conclusion as to the effectiveness and design of DC&P should be provided in the MD&A. DC&P should provide reasonable assurance that:

- Material information relating to the Company is made known to the CEO and the CFO by others, to make a determination as to the appropriateness and timing of public disclosure, if any; and
- Information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation;

The Company's Disclosure Committee along with management and the CEO and CFO assist with the evaluation of DC&P design and operating effectiveness. Throughout the year, the Disclosure Committee is kept apprised of any material information affecting the Company so that it may discuss and evaluate such information to make a determination as to the appropriateness and timing of public release, if any.

As at December 31, 2010, the CEO and the CFO, based on their evaluation, concluded that DC&P were properly designed and were operating effectively.

Internal Controls over Financial Reporting

As part of the Form 52—109 certification, the CEO and the CFO must certify that they are responsible for designing Internal Controls over Financial Reporting ("ICFR"), or caused them to be designed under their supervision, and that they are responsible for evaluating the operating effectiveness of ICFR. ICFR should:

- Provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

As at December 31, 2010, the CEO and the CFO, based on their evaluation, concluded that the design of ICFR provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Using the framework set forth in **Internal Control—Integrated Framework** issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), management, under the supervision of the CEO and CFO, conducted its evaluation of the effectiveness of the Company's ICFR as at December 31, 2010. Based on this evaluation, the CEO and CFO concluded that the Company's ICFR are operating effectively and provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Changes in Internal Controls over Financial Reporting
During fiscal 2010, there were no changes in internal controls over financial reporting that are likely to have, or had, a material effect on the Company's ICFR.

Risks and Opportunities

The Company is subject to a number of risks and uncertainties, the more significant of which are discussed below. Additional risks and uncertainties not presently known to the Company may impact its financial results in the future.

Dependency on Advertising Revenue
The Company's revenue is derived from the sale of advertising airtime directed at retail consumers. This revenue fluctuates depending on the economic conditions of each market and the Canadian economy as a whole. The Company takes steps to mitigate this risk by retaining a degree of geographic and sectoral diversification.

Other media compete for advertising dollars, such as print, television, yellow pages, outdoor, direct mail, and on-line services. In many instances, these competitors are targeting the same advertisers as radio broadcasters and advertising dollars often shift between the different media. While there is no assurance that the Company's radio stations will maintain or increase their share of the advertising dollars, the Company does attempt to mitigate any loss to other media by creating long-term relationships with customers and providing innovative, high-quality campaigns. Over the past number of years, radio's percentage share of advertising dollars has remained relatively constant with the increase of on-line advertising coming from the decline in print advertising.

General Competition
The Company faces competition in some of its markets which impacts the Company's audience, revenue share and the level of promotional spending required to remain competitive. Any changes to the competitive environment could adversely affect the Company's financial results. The Company takes steps to mitigate these risks by constantly modifying its product and performing market research to ensure it is meeting the needs of its listener base. The Company is sheltered from the effect of competition in many of its small markets as it is the sole station serving those communities.

New Market Entrants
In recent years, the CRTC had been awarding an increasing number of new FM licences in markets. While the Company benefited from this trend by being the recipient of some of these new licences, it has also been negatively affected by new competition in some locations. In all markets where competition is a factor, the Company continuously studies the market, including demographic trends and the needs of both customers and listeners, to have reasonable assurance that the programming offered is tailored to the requirements of the audience.

Impact of Regulation
The Company is regulated by the CRTC under the Broadcasting Act. Although this regulatory body provides a stable operating environment, the Company's financial results may be affected by changes in regulations, policies and decisions made by the Commission. The current regulations with respect to the maximum number of broadcast licences held in any one market, the percentage of foreign ownership, the required level of Canadian content and other aspects of the regulations could change in the future. The Company actively monitors the regulatory environment to ensure it is aware of all risks and opportunities.

The licencing process creates a significant barrier to entry which provides a degree of protection for the Company in its existing markets. This also makes it difficult to enter new markets because a company either needs to be awarded a new licence (through the public process) or pay significant funds for existing stations in a market.

Regulatory Environment—Radio Tariffs
The Company is subject to certain fees. Licence fees are payable to the CRTC, while copyright fees are payable to collection societies which include the Society of Composers, Authors and Music Publishers of Canada ("SOCAN"), Re:Sound, the Canadian Musical Reproduction Rights Agency and Society for Reproduction Rights of Authors, Composers and Publishers in Canada ("CSI"), and the Audio-Video Licensing Agency ("AVLA") based on rates set by the Copyright Board of Canada.

The collection societies can apply at any time to the Copyright Board for amendments to the fees which could affect future results. The CAB represents the

MANAGEMENT'S DISCUSSION & ANALYSIS

interests of broadcasters by representing the industry at any hearings before the Copyright Board.

The Copyright Board heard proposals in December 2008 related to five copyright tariff proposals for commercial radio. Agencies proposing these tariffs included NRCC, SOCAN, CSI and two groups that had no existing tariffs AVLA/SOPROQ (representing record labels), and Artisti (representing performers). The CAB acted on behalf of the broadcasters to oppose any tariff rate increases. The Copyright Board issued its ruling in July 2010 on certain tariffs which resulted in a $3.0 million increase in copyright fees year-to-date, of which $1.8 million related to previous years. As a result of this ruling, copyright fees as a whole have increased from 7.3% to 8.9% of revenue, subject to certain exemptions for low use and low revenue stations.

During 2010 the members of the CAB decided to undertake a major restructuring of the organization. This included an assessment of the core activities to ensure it was meeting the needs of its members in today's rapidly evolving communications environment. The members decided that the CAB would continue to exist on a smaller scale and focus its efforts on matters of central importance to the industry and provide certain administrative functions. The CAB will continue to represent private broadcasters' interests on the matter of copyright reform. The Company is actively involved in this organization with a member on the Board.

Regulatory Environment—CRTC Part II Fees

Since 2001, the CRTC levied Part II licence fees on all Canadian Broadcasters. Broadcasters paid the fees in protest until December 15, 2006 when the Federal Court issued a decision stating the fees were not a valid regulatory charge. In 2007 because there had been no appeal of the 2006 court decision, the Company reversed the fees it had accrued and stopped accounting for these fees in its ongoing results. Then in April 2008, the Federal Court of Appeal reversed the December 2006 decision. At that time, the fees met the definition of a liability and the Company recognized the obligation retroactively to January 1, 2007. As a result, for the year ended December 31, 2008, the Company recognized $1.3 million in CRTC Part II fees of which almost one half related to 2007.

In October 2009, the Government of Canada and members of the broadcasting industry that were required to pay CRTC Part II licence fees announced they had settled the Part II licence fee issue. Under the terms of the settlement, the government agreed to waive the fees payable for the broadcast calendar years ending August 31, 2007, 2008 and 2009 that had not been collected due to the ongoing legal dispute. In exchange, the CAB agreed to discontinue its court action against the Government of Canada. The Government of Canada agreed to recommend to the CRTC that it develop a new Part II fee regime which would be capped at $100 million, indexed for annual inflation, effective beginning September 1, 2009.

As a result of the settlement, the Company reversed the total obligation it had recognized related to CRTC Part II fees which amounted to $2.0 million. Approximately $0.5 million of this total related to fiscal 2009; the rest related to prior years.

Technological Developments

With the advent of new or alternative media technologies such as satellite radio, digital radio, the Internet, wireless broadcasting and podcasting, competition for broadcasting advertising revenue and listeners has, and will continue to increase. This increased competition could have the impact of reducing the Company's market share, its ratings within a market, or have an adverse effect on advertising revenue locally and nationally. While such technologies could adversely impact operating results, the Company continuously seeks to achieve competitive advantages by keeping abreast of emerging technologies and enhancing its service offering to advertisers.

Potential Contingencies

The Company and its subsidiaries are involved in various legal actions which arise out of the ordinary course and conduct of its business. Management believes any potential liabilities that may result from these actions have been adequately provided for and are not expected to have a material adverse effect on the Company's financial position or its results.

Outlook

The Company delivered one of its most impressive years on record, posting double-digit revenue growth in its core operating segment. The Company outpaced the industry again in 2010, growing its revenue by 12% while the industry posted growth of 6%. Management is optimistic that positive growth will continue into 2011. The Company continued to increase its EBITDA margins as well, helped by closely monitoring discretionary costs. The Company also reduced its long-term debt by $3.6 million. In addition, the focused efforts placed on increasing market share were successful as the Company enjoyed strong ratings results throughout 2010.

Over the years, the Company has demonstrated steady growth in its asset base, its number of broadcast licences and its revenue. The success is attributed to the Company's long-standing operating strategy, with a clear focus on the following:

- Continuing to maximize operating margins from existing stations by:
    - Managing costs to achieve the highest possible EBITDA margins while maintaining or improving the quality of the product;
    - Growing revenue by creatively engaging advertisers, particularly local revenue, where management has a greater ability to influence buying decisions;
    - Strengthening audience share by delivering locally-focused programming that delivers music, news and information that our communities want to hear.
- Planning and preparing to launch CRTC-approved AM to FM conversions;
- Reviewing all acquisition opportunities that complement the Company's investment criteria and growth strategy; and
- Aggressively applying for licences in new communities, and seeking approval from the CRTC wherever possible, to convert additional AM stations to FM which will generate immediate top line growth.

The Company will continue to follow the same strategy in 2011 and continue to be actively involved and present at events that are important to the communities in which the Company operates. This includes contributing personnel time, funds and other advertising and promotional products that will assist in making the event successful.

The Company's management is proud that it was able to produce substantial growth in 2010. The increase in the Company's local revenue is testament to the talented sales professionals employed in communities across the country. The Company has always tied much of its past success to the connections it makes with the local communities it serves. These relationships are crucial to maintaining the level of growth that we have enjoyed over the years. The Company's solid strategic and operating foundation laid over the years, and the deep talent of the Company's radio professionals puts the Company in a solid position to continue its success in the years to come.

Non-GAAP Measure

[1]EBITDA is defined as net income from continuing operations excluding depreciation and amortization expense, interest expense, accretion of other liabilities, broadcast licence impairment charge, gain on disposal of broadcasting licence, other income and provision for income taxes. A calculation of this measure is as follows:

	Year ended December 31	
(thousands of Canadian dollars)	2010	2009
Net income from continuing operations	**$ 10,701**	$ 14,934
Provision for income taxes	**5,434**	5,506
Gain on disposal of broadcasting licence	**—**	(5,616)
Other income	**(437)**	(2,809)
Broadcast licence impairment charge	**1,609**	—
Accretion of other liabilities	**683**	867
Interest expense	**3,639**	4,374
Depreciation and amortization expense	**3,941**	3,795
EBITDA	**$ 25,570**	21,051

This measure is not defined by GAAP and is not standardized for public issuers. This measure may not be comparable to similar measures presented by other public enterprises. The Company has included this measure because the Company's key decision makers believe certain investors use it as a measure of the Company's financial performance and for valuation purposes. The Company also uses this measure internally to evaluate the performance of management. Beginning in 2010, other income, which is primarily the results from investment holdings, was excluded from the determination of EBITDA. Consolidated EBITDA for 2009 has been adjusted to reflect this reclassification.